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1. The present military situation in North China and Manchuria is so critical that by the end of winter the Central Government held in Manchuria will be lost and North China will become untenable. 25X1X
2. It is the opinion of source that the Central Government should withdraw its forces south of the Yellow River and make a stand there.
3. If North China is lost, Peiping and Tientsin will be declared open cities and will therefore be subject to peaceful occupation. [REDACTED] Note: This possibly has some application in the case of Peiping because of its cultural history.) 25X1A
4. General FU Tso-yi's military ability is slight. He is simply a good bargainer, following the line of least resistance. He is essentially a YEN Hsi-shan man, famous for the ease with which he has always managed to shift his position. No one, therefore, can trust him.
5. FU has had three theoretically possible courses of action: (1) to seek an agreement with the Chinese Communists; (2) to participate in a North China separatist movement; (3) to bargain with the Nanking Government for the best position if he should be defeated.
6. The Chinese Communists will never attempt to make use of FU, since they cannot trust him, even if FU seeks to cooperate with them in case the Central Government forsakes him.
7. No separatist movement in North China is possible, as such a movement would necessitate the agreement of the Chinese Communists, whose policy is to absorb all small parties.
8. In the light of these last two statements, FU was limited to the third course of action. He has made a bargain with the Nanking Government by which he will make a show of defending North China and, in return, CHIANG Kai-shek will allow him to retain his rank and the control of his army after he is forced out of North China.
9. The economic position of the people of North China is so critical that they cannot survive much longer without a relaxation of the civil war. FU Tso-yi has already put out feelers to enlist the cooperation of the Chinese Communists. Since they do not trust him, however, they will destroy his power at the first opportunity.

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